

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

SEMINOLE CASUALTY INSURANCE COMPANY

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 4/23/02

TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	3
III.	COMPANY OPERATIONS/MANAGEMENT	4
IV.	REVIEW OF POLICIES	
	A. PRIVATE PASSENGER AUTOMOBILE	7
V.	AGENTS/MGA REVIEW	8
VI.	CANCELLATIONS/NONRENEWALS REVIEW	9
VII.	CLAIMS REVIEW	11
VIII.	COMPLAINTS REVIEW	12
IX.	PENDING ISSUES	13
X.	EXHIBITS	14

I. INTRODUCTION

Seminole Casualty Insurance Company is a domestic property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination, January 1997 through December 1999. The examination began August 28, 2000 and ended October 5, 2000. The last examination of this insurer was completed in 1997.

The purpose of this target examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included certificates of authority covering the scope of the examination, policies including the application and underwriting file, cancellations/nonrenewals, agent/MGA licensing, claims and consumer complaints for the period of January 1997 through December 1999, as reflected in the report.

Findings in the 1997 examination included: Agent/MGA review - one (1) error was for failure to display agent's license number on the policy application; Cancellation/Nonrenewal review - four (4) errors were found, i.e., one (1) error was due to failure to provide a valid reason for non-renewal, one (1) error was due to failure to provide a clearly stated reason for cancellation, and two (2) errors were due to improper ab initio cancellation for non-material misrepresentation; Claims review - five (5) errors were found, i.e., two (2) errors were due to failure to advise the insured that sales tax applicable to the total vehicle would be paid when the vehicle was replaced, one (1) error was due to failure to calculate a personal injury protection (PIP) interest payment correctly, and two (2) errors were due to failure to pay covered claims.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes/Rules.

As a result of the findings of this examination, an estimated \$16,000 will be returned to 8,000 Florida consumers due to underreturns of unearned premium resulting from cancelled policies.

II. PRE-EXAM REVIEW OF COMPANY'S WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificates of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Examination Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. Profile

The Company was incorporated June 9, 1988, under the laws of the State of Florida as a stock property and casualty insurer commencing business on December 21, 1988, as Seminole Casualty Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to market: Private Passenger Automobile Liability and Private Passenger Automobile Physical Damage coverages.

Seminole Insurance Services, Inc., licensed as a Managing General Agency, is a wholly-owned subsidiary of Seminole Casualty Insurance Company.

Seminole Casualty Insurance Company's marketing is done through independent local agents.

The Company employs a number of licensed adjusters to handle claims. Independent adjusters and/or adjusting companies are used for writing estimates, taking statements, and other required functions that cannot be performed by employees at the Company office. The Company operates from its home office; there are no regional nor branch offices.

B. Management

1. Company Computer System

The primary computer systems of the Company are SCO Open Server Enterprise Unix servers running on Intel processors. The underwriting server hosts the production database and the applications for the

underwriting, accounting, marketing and statistical departments. The claims server hosts the applications for the claims department, the company-wide fax service and the voice response telephone binder system. The development server hosts the development database and the development source code for all applications on the other servers.

2. Fraud

The claims department has an SIU unit.

3. Disaster Recovery

The Company has a disaster recovery plan in place in the event of catastrophes.

4. Audits

- All financial accounts are balanced monthly to source reports and bank/brokerage statements.
- New computer reports are balanced against existing reports.
- Numerous system generated edit reports are used to identify possible data entry errors.
- Claims files are reconciled to system reserves on a cyclical basis.
- After rate changes, major agency rating software programs are reconciled to the system rating engine and corrections submitted to the software vendor.

C. Operations

The Company writes non-standard automobile coverages. Marketing is performed through independent insurance agents. The Company accepts risks that fall within the parameters outlined in its underwriting manual, which manual is filed with the Department of Insurance.

The Company makes its policies available to citizens of the State of Florida and has agents with access to the Company in every county in the State. Based on a

combination of population distribution and Company results, the largest counties in terms of premium volume are Broward, Orange, and Palm Beach.

IV. REVIEW OF POLICIES

A. PRIVATE PASSENGER AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Seminole Casualty Insurance Company files rules/rates in accordance with Section 627.062, Florida Statutes.

b. Form Filings

Seminole Casualty Insurance Company independently files forms in accordance with Section 627.410, Florida Statutes.

c. Statistical Affiliation

Insurance Services Office (ISO) acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1997	\$10,396,528	8,688
1998	\$ 9,778,405	9,425
1999	\$ 7,118,839	6,862

3. Examination Findings

Fifty (50) policy files were examined.

No errors were found.

V. AGENTS/MGA REVIEW

Ten (10) applications/policies written during the scope of examination were examined.

Two (2) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Two (2) errors were due to failure to license/appoint agency employees. This constitutes a violation of Section 626.733, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Thirty-one (31) errors were found.

Six (6) errors resulted in underreturns totaling \$43.77 and one (1) error resulted in an overreturn totaling \$148.00.

These errors are broken down as follows:

1. Six (6) errors were due to failure to comply with premium finance cancellation requirements. These errors resulted in underreturns totaling \$43.77, which have not been refunded by the Company as the Company does not agree that premium finance cancellations are effective one day after the effective date shown on the premium finance cancellation notice. See Pending Issues Section of the report. This constitutes a violation of Section 627.848, Florida Statutes.
2. Two (2) errors were due to failure to comply with Unfair Trade Practice requirements. One of these errors resulted in an overreturn of \$148.00. The Company incorrectly canceled the policy ab initio (voided) without proof of duplicate coverage. No premium was charged between the effective date of the policy, February 17, 1999, and the effective date of the insured's other policy, April 8, 1999. One (1) error was due to failure to use a valid reason for cancellation. The reason used was duplicate coverage when no duplicate coverage existed. This constitutes a violation of Section 626.9541, Florida Statutes.
3. One (1) error was due to failure to provide timely notice of renewal/nonrenewal or cancellation. This constitutes a violation of Section 627.728, Florida Statutes.

4. Three (3) errors were due to failure to file Form D14-493 Rescinded Policies. The three (3) policies that were canceled ab initio were not reported to the Florida Department of Insurance as required. This constitutes a violation of Rule 4-167.002, Florida Administrative Code.

5. Nineteen (19) errors were due to failure to comply with return of unearned premium requirements. The Company did not return unearned premiums resulting from policy cancellations within the required thirty (30) day time period after effective date of cancellation. This constitutes a violation of Section 627.7283, Florida Statutes.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Seven (7) errors were found.

One (1) error resulted in an underpayment totaling \$1,385.00.

The Company's internal claims handling procedures and reserving practices are described in Exhibit I.

The errors are broken down as follows:

1. One (1) error was due to failure to properly adjust a claim. On a total loss collision claim, the Company paid the lienholder, but failed to pay the balance due to the estate of the insured who was killed in the accident. This error resulted in an underpayment totaling \$1,385.00, which has been refunded by the Company. This constitutes a violation of Section 626.877, Florida Statutes.
2. One (1) error was due to failure to disclose information. Policy information was requested as a result of an accident. The Company did not respond to the request within thirty (30) days. This constitutes a violation of Section 627.4137, Florida Statutes.
3. Five (5) errors were due to failure to communicate timely. The Company failed to respond to written correspondence regarding a claim within fourteen (14) days. This constitutes a violation of 4-166.024, Administrative Code.

VIII. COMPLAINTS REVIEW

A complete record of all the complaints received by the Company since the date of the last examination has been maintained as is required by Section 626.9541(1)(j), Florida Statutes. Procedures for handling these complaints have been established by the Company. Complaint handling procedures are described in Exhibit II.

IX. PENDING ISSUES

The following issues were pending at the conclusion of the examination:

1. The Company was instructed to re-calculate all return premiums on policies canceled by premium finance companies during the scope of this examination. The effective date of cancellation should be one day after the date shown on the premium finance company cancellation notice. The Company is to provide the Florida Department of Insurance with documentation that the refunds have been made within ninety (90) days of the execution of the Consent Order.
2. The Company was instructed to issue return premium checks on six (6) of the fifty (50) files examined in the Cancellation/Nonrenewal rate review. However, the Company has advised it does not agree that these return premiums are due. Following is a list showing the individual return premiums due:

<u>Item No.</u>	<u>Policy Number</u>	<u>Amount</u>
36	AP221556	\$ 9.53
40	AP195092	\$ 2.51
47	AP 195434	\$ 4.46
48	AP 195325	\$ 8.17
49	AP 195017	\$17.50
50	AP 195047	\$ 1.60

X. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
----------------	-----------------------

CLAIMS HANDLING PROCEDURES	I
----------------------------	---

COMPLAINT HANDLING PROCEDURES	II
-------------------------------	----